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RUEHKM/AMEMBASSY KAMPALA PRIORITY 1347
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CH, KE
SUBJECT: CHINA'S PRESIDENT HU VISITS KENYA

REF: A. BEIJING 7092
[1](#)B. 05 NAIROBI 3600

Classified By: Political Counselor Michael J. Fitzpatrick for reasons 1
.4 (b,d)

[1](#)1. (C) SUMMARY: Chinese President Hu Jintao's late April visit to Nairobi further strengthens the bilateral economic relationship between the two countries through several economic, technical, and financial assistance agreements. While the balance of the economic relationship is heavily tipped in China's favor, Kenya views China as an increasingly attractive partner for the economic benefits likely to arise from closer ties with the rising Asian powerhouse. China is also perceived by many in government here as a less demanding development partner, in contrast to more critical Western donors, one whose assistance comes with fewer strings attached. Despite the generous extension of economic and development assistance, the new agreements are likely to do little to offset the one-sided nature of the Kenyan-China trade relationship. END SUMMARY.

[1](#)2. (U) Concluding his five-nation tour, which took him to the U.S., Saudi Arabia, Morocco, and Nigeria, Chinese President Hu Jintao paid a State Visit to Nairobi, Kenya April 27-29. Hu's visit reciprocates Kenyan President Mwai Kibaki's August 2005 State Visit to China, and seeks to further strengthen bilateral economic ties between the two countries. Hu also visited the United Nations Human Settlements Program (UN-HABITAT) and the United Nations Environment Program (UNEP) headquarters housed in the UN's compound located across the street from the U.S. Embassy, the largest UN presence in the third world. Hu met with the Executive Directors of both UNEP and UN-HABITAT to discuss expanding areas of cooperation. Hu also extended an invitation to all African Heads of State to visit China for a meeting in September. Hu's visit concluded with the issuance of a joint communiqué, detailing the assistance and economic and technical cooperative agreements reached between the two countries. The Chinese promised additional aid, while Kenya affirmed its support for the one-China policy. The full text of the joint communiqué can be found at www.statehousekenya.go.ke/index.htm.

Chinese Offer Some Aid

[1](#)3. (SBU) Trade and economic development issues formed the

centerpiece of Hu's visit. As noted in the joint communique, the Chinese delegation offered a number of assistance goodies to Kenya, including an unspecified RMB 60 million (USD 7.5 million) grant under the Agreement on Economic and Technical Cooperation, plus much smaller amounts of aid for anti-malarial medicine, donated rice, rehabilitation of a sports complex, and repair of roads in Nairobi.

Kenya Wants to Reduce Trade Imbalance

¶4. (C) For Kenya, however, these amounts, while not insignificant, are secondary to concerns about trade and investment. As noted ref B, Kenya's exports to China, while growing, are a fraction of what Kenya imports from China, and these imports are also growing rapidly, putting many Kenyan manufacturing sectors and their jobs at risk. Kenya's Permanent Secretary of Industry and Trade, David Nalo, told Econ/C May 2 that in an April 28 meeting between Kenyan Trade Minister Mukhisa Kituyi and his Chinese counterpart, Bo Xilai, the two sides discussed three ways in which the towering trade imbalance could be addressed:

-- Expand flight frequencies under the air services agreement inked during the visit by President Kibaki to China in 2005 (ref B) as a way to encourage more tourism from China to Kenya. (Note: Kenya Airways has three flights a week via Dubai to the southern port city of Guangzhou; over nine thousand Chinese tourists visited Kenya in 2004. End note).

-- Concessional credits by the Chinese government to Chinese companies to encourage them to invest in agro-processing or other manufacturing sectors whose products might be exported back to China.

-- Oil exploration by Chinese firms, which could in theory lead to oil exports from Kenya to China in the future.

¶5. (SBU) In his meeting with Bo Xilai, Trade Minister Kituyi, speaking as the Chair of the African Union Trade Ministers group, also urged China to abandon its opposition to the WTO waiver granting preferential access to the U.S. market for eligible African countries under the U.S. Africa Growth and Opportunity Act (AGOA). This request comes in the context of the displacement of African exports, especially textiles and apparel, by Chinese products following the elimination of quota restrictions under the Multi-Fiber Agreement in 2005.

Mutual Interests in Natural Resources

¶6. (U) According to press reports, the two countries reached an agreement which grants oil and gas exploration rights to state-owned China National Offshore Oil Corporation (CNOOC) for six on- and off-shore blocks in the north and south of Kenya. Exploratory drilling is likely not imminent pending the results of a test well scheduled to be drilled later this year by an Australian energy firm, however. Separate from the Hu visit, but at the same time, a Chinese firm is reportedly taking a 15 percent share in Tiomin, a newly-opened Canadian-owned titanium mine south of the coastal city of Mombasa.

¶7. (C) On a closely related note, Nalo said President Kibaki asked President Hu to consider supporting peace efforts in the region by making a "major investment" in a rail link between Southern Sudan and the port of Mombasa or Lamu. Such a rail link would facilitate the export through Kenya of oil and other natural resources from Sudan and enhance regional economic development generally.

And What Did the Chinese Get?

18. (SBU) For China, the bottom line from Hu's visit to Kenya is spelled out in the joint communique, in which Kenya pledged its support for the one-China policy and "expressed its opposition to 'Taiwan' independence in any form." But beyond this, the visit served to solidify bilateral relations for China with a key African country. Even if the promise of oil and gas discoveries do not pan out, China is well served by strengthening its ties by throwing a bit of aid to Kenya given the country's strategic location as the best entry point to all of the export and natural resource markets of East Africa.

Comment

19. (C) China's policy of engaging Kenya and other African nations on an "equal footing" with "mutual respect" to promote "win-win" relationships will continue to appeal to elements within the Kenyan government (and general public). China is particularly attractive to those who are frustrated with what they perceive to be "Western" interference and disrespect for national sovereignty in its calls for good governance, respect for human rights, and reduced corruption.

As such, Kenya will continue to accept Chinese flattery and largesse because Third World solidarity, even if only superficial, feels good. The real pain, however, will come with grappling with an overwhelmingly one-sided economic relationship. The measures being pushed by the Kenyan government -- like boosting services exports through tourism, or hoping Chinese companies will invest in manufacturing in Kenya and then re-export goods to China -- are feeble defenses at best. Unless Kenya strikes oil and sells it all to China (not likely soon), we see no end to a trade imbalance that threatens to annihilate Kenya's notoriously uncompetitive manufacturing sectors.

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